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SUBJECT: Scenesetter for Assistant Secretary Arturo Valenzuela's
January 11-12 Visit to Chile

11. (U) Embassy Santiago warmly welcomes you to Chile. 2010 will be a historic year as Chile celebrates its bicentennial, joins the OECD, and elects its fifth president since the return to democracy in 1990. Bilateral relations have never been better with particularly strong high-level ties and deepening institutional relationships across a wide range of sectors. In the coming months, our principal challenge will be working more closely with the incoming Chilean Government on regional and global issues.

Elections

12. (SBU) Chile's January 17 runoff presidential election is likely to be historic, as opposition candidate Sebastian Pinera is expected to bring conservatives to power for the first time in twenty years. A Pinera win would have huge symbolic importance, but lead to only moderate policy changes. Pinera's center-right political coalition, Alianza, has been associated in the minds of many with support for the Pinochet dictatorship. The first election of someone from this coalition will symbolically move the country past a political discourse that has long calcified around who supported and opposed the military regime. Nonetheless, there is broad consensus that the center-left Concertacion coalition, which has governed Chile since 1990, has been very successful in restoring democracy, strengthening institutions, and overseeing impressive economic growth. Indeed, President Bachelet enjoys an unprecedented 80% approval rating. Dissatisfaction with the Concertacion stems mainly from frustration with low-level corruption, a sense that the coalition is worn out, and a failure to include newer leaders in its ranks.

13. (SBU) The real question surrounding Chile's presidential election is how to renew the political leadership without discarding the sound policies implemented under Concertacion rule. In selecting Eduardo Frei, a former president and son of a president, as its candidate, the Concertacion signaled, perhaps unintentionally, that change was not coming from within. Marco Enriquez-Ominami left the Concertacion and ran as a young independent on a platform of shaking up the political establishment. Sebastian Pinera positioned himself between the two, offering a change in the governing coalition while promising

experienced leadership and continuity in policies.

14. (SBU) In the December 13 election, Pinera won 44.0% of the vote; Frei, 29.6%; Enriquez-Ominami, 20.1%, and left-leaning Jorge Arrate, 6.2%, with Pinera and Frei moving on to the January 17 runoff. In the congressional elections held the same day, the balance of power remained largely the same: Concertacion regained control of the Senate, while Alianza came out ahead in the Chamber of Deputies for the first time ever. However, a number of other measures of political support -- including the total number of votes cast nationwide for congressional candidates from each political coalition -- pointed to the Concertacion losing substantial ground.

15. (SBU) Pinera has a strong advantage going into the runoff. If he were to win, Chile would see "major changes in faces but not in policy," in the words of one Pinera advisor. The new government would have to fill roughly 3,000 positions, and would draw from center-right supporters in business, think tanks, universities, and local government. Meanwhile, the Concertacion would face the challenge of life in the opposition and restructuring its leadership.

16. (SBU) If Frei were to win, the cabinet would change, although the turnover would be less dramatic than under Pinera. However, the Concertacion would still need to define how much to shake up its leadership. A Frei victory would be incredibly demoralizing for the Alianza. Pinera is a charismatic, well-funded candidate who has run an excellent campaign, a sharp contrast to the rather stiff and unexciting Concertacion candidate and his error-prone campaign. A Frei win would signal that Chile's voters are simply not ready for conservative rule and no Alianza candidate -- no matter how weak his opponent -- is likely to win for some time.

17. (U) The new president will be inaugurated March 11 at the Congress building in Valparaiso.

United States and Chile as Partners

18. (U) The excellent relations between the United States and Chile have been strengthened by the close rapport between the Obama and Bachelet administrations. Vice President Biden's March 2009 visit to Chile powerfully signaled Washington's interest in engaging with Chile and the region. President Bachelet's June 2009 visit to Washington reaffirmed joint efforts to broaden and deepen the partnership we enjoy with one of the hemisphere's most successful democracies.

19. (U) The U.S. and Chile have forged a vibrant bilateral partnership, with strong institutions in both countries ensuring continued cooperation from the bottom up as well as from the top down. During President Bachelet's visit to Washington, we signed agreements on clean energy cooperation and cancer research, reflecting the breadth of our relationship. The Chile-California Partnership for the 21st Century, launched by Bachelet and Governor Schwarzenegger in June 2008, highlights the economic and geographic similarities between Chile and California and fosters collaboration in agriculture, energy efficiency, environmental resource management, and education. Bilateral military and law enforcement ties are among the best in the hemisphere.

¶10. (U) The U.S.-Chile Free Trade Agreement (FTA) is a cornerstone of our relationship. The U.S. is Chile's largest trading partner, and Chile is our fifth largest trading partner in Latin America. Bilateral trade has expanded more than 200% (totaling more than \$20 billion in 2008) since the FTA went into effect in 2004. Despite this success, sticking points remain, such as Chile's failure to implement strong protection for intellectual property rights, as required by the FTA.

¶11. (SBU) No matter who wins the presidential election, we fully expect to maintain excellent relations. Our first focus will be to establish rapport with the new Chilean officials, building on existing programs and good ties with members of both the Pinera and Frei teams. As outlined below, we have some exciting new areas of cooperation that should quickly draw in our counterparts. In other areas, notably law enforcement and military cooperation, we expect strong continuity in our cooperation, with little turnover in the senior ranks.

Chile on the International Stage

¶12. (SBU) Under President Bachelet, Chile has embarked on a more confident foreign policy and our strong bilateral ties have been the foundation for increasing joint engagement on regional and global issues. Bachelet, acting as president pro tempore of UNASUR, established a moderate tone for President Obama's initial meeting with regional leaders at the Summit of the Americas. In the past year Chile has played a constructive role on Cuba's conditional re-entry into the OAS, the conflict in Honduras, and in deflating the rhetoric surrounding the U.S.-Colombia Defense Cooperation Agreement. Chile also maintains a 500-strong peacekeeping contingent in Haiti.

¶13. (SBU) A Pinera or Frei government will first focus on establishing its governing team and domestic policies. The broad parameters of Chile's foreign policy will remain constant and an important priority will be the ongoing maritime border dispute with Peru. Relations between the two countries have soured ever since Peru filed its dispute with the International Court of Justice (ICJ) in March 2009. Chile is scheduled to submit its response to the ICJ in March 2010, but the final ruling will not come until March 2012. Recent spats have maintained a certain level of friction in bilateral relations, such as recent Peruvian accusations of Chilean espionage. Either new president may have less patience than Bachelet with the behavior of regional populists and may be more inclined to criticize the weakening of democratic institutions in the region. Chile will take on the rotating presidency of the Rio Group in early 2010, and that will be an important opportunity to establish its tone for regional engagement.

¶14. (SBU) In June, the United States and Chile agreed to cooperate jointly in promoting development in other countries in the region. We are already working together on infrastructure development in Costa Rica and agricultural expertise with Central America. We have agreed to focus on new efforts in Paraguay and El Salvador, and hope to make enough progress to carry this excellent initiative into the next Chilean administration. We will need to quickly engage the new government for several upcoming summits, notably President Obama's Nuclear Safety Summit and the Energy and Climate Ministerial of the Americas, both in April in Washington. On the trade front, Chile is excited about the President's commitment to participate in the Trans-Pacific Partnership, which will hold its next meeting in Melbourne in mid-March. The GOC has repeatedly expressed its interest in joining the G-20 to play a role in reforming the international financial architecture.

Economic Excellence and Challenges

¶15. (SBU) Chile has been rightfully lauded for its excellent economic policies over the past two decades. President Bachelet and Finance Minister Velasco built on that reputation with their skillful management of the Chilean economy during the global economic crisis. Chile's trade-based economy suffered from the global contraction in demand, and GDP shrank 1-2% in 2009, while unemployment crept over 10%. However, the negative effects were tempered by Chile's strong economic fundamentals and sound institutions, plus a more than \$4 billion stimulus package. The economy is showing signs of recovery and is expected to grow 4.5-5.5% in 2010.

¶16. (SBU) Both Pinera and Frei have declared their aspiration for Chile to achieve developed country income levels in the next 15-20 years. This is feasible, but also a huge challenge. Growth rates

have slowed compared to their neighbors, and Chile's productivity has actually fallen over the past decade. Chile seems to have realized most of the initial benefits brought by macroeconomic stability. The new government will have to undertake a number of microeconomic reforms to maintain economic momentum, and both candidates have emphasized the importance of education, innovation, and labor reform.

¶17. (SBU) In this context, Chile's accession to the Organization for Economic Cooperation and Development (OECD) is timely. Accession is a signature accomplishment for Bachelet and Velasco, and is acknowledgement of Chile's high quality economic policies. Furthermore, access to the OECD's expertise and experience can also help guide Chile's next wave of economic reform necessary to become a developed country.

Environment and Energy Cooperation

¶18. (U) Regardless of Chile's change of administration, we will continue and enhance our already strong energy and environment cooperation. Key among these efforts will be promoting policies to support Chile's renewable energy and energy efficiency sectors, working with Chile on measures to assist in reaching self-imposed emission reduction goals, and targeting efforts to promote environmental management best practices and stewardship.

¶19. (SBU) Our energy cooperation with Chile is robust. In June, both countries signed an MOU for cooperation on "Clean Energy Technologies," one of the first concrete steps taken under the Energy and Climate Partnership of the Americas announced by President Obama at the Summit of the Americas. The Department of Energy is providing technical support to a new Renewable Energy Center and preparation of two solar pilot plants in Chile. Numerous U.S. energy and environment experts on biofuels, energy efficiency, and solar technologies have traveled to Chile recently. The Department of Energy, under its Global Treat Reduction Initiative, is working with Chilean authorities to remove highly enriched uranium from research reactors before the April 2010 Non Proliferation Treaty Review Conference.

¶20. (SBU) Chile is actively engaged on energy issues in the international arena. It is a member of the new International Renewable Energy Agency (IRENA) and the International Atomic Energy Agency (IAEA), and has been helpful on Iran non-proliferation issues. The International Energy Agency (IEA) published an in-depth review of Chile's energy policies in October 2009. Chile is already implementing recommendations from this study, including creating a new ministry of energy. Chile announced at the Copenhagen Climate Change Conference that it would -- voluntarily and using primarily its own domestic resources -- reduce greenhouse gas emissions 20% from their baseline by 2020.

¶21. (U) We expect to deepen our good cooperation on environmental issues. On January 20, there will be a meeting of the U.S.-Chile Environmental Affairs Council and Joint Commission for Environmental Cooperation to finalize a new cooperative work plan. Capacity-building will be important to support Chile's new ministry of environment.
SIMONS